

UPM

UPM.HE • NASDAQ Helsinki • Paper, Lumber & Forest Products • Finland

<p>RECOMMENDATION</p> <p>BUY</p> <p>12-month horizon</p>	<p>CURRENT PRICE</p> <p>25.31 EUR</p> <p>as of report date</p>	<p>TARGET PRICE</p> <p>34.00 EUR</p> <p>12-month fundamental</p>
<p>IMPLIED UPSIDE</p> <p>+34.3%</p> <p>vs. current price</p>	<p>MARKET CAP</p> <p>EUR 13.1 bn</p> <p>shares × price</p>	<p>ENTERPRISE VALUE</p> <p>EUR 16.6 bn</p> <p>mcap + net debt</p>

P/E 2026E	EV/EBITDA 2026E	FCF YIELD 2026E	DIVIDEND YIELD 2026E	NET DEBT / EBITDA 2026E
16.4×	7.8×	9.8%	4.9%	1.3×

RESEARCH SNAPSHOT

The call, the math, and the three reasons why

02

This page is the institutional summary. Read it in 30 seconds — the rest of the report is the supporting evidence.

<p>RECOMMENDATION</p> <p>BUY</p> <p>12-month horizon</p>	<p>TARGET PRICE</p> <p>34.00 EUR</p> <p>12-month fundamental</p>	<p>CURRENT PRICE</p> <p>25.31 EUR</p> <p>as of report date</p>	<p>IMPLIED UPSIDE</p> <p>+34.3%</p> <p>vs. current price</p>
<p>MARKET CAP</p> <p>EUR 13.1 bn</p> <p>shares × price</p>	<p>ENTERPRISE VALUE</p> <p>EUR 16.6 bn</p> <p>mcap + net debt</p>	<p>P/E · EV/EBITDA 2026E</p> <p>16.4x · 7.8x</p> <p>forward forecast basis</p>	<p>FCF · DIV YIELD 2026E</p> <p>9.8% · 4.9%</p>

■

<p>01 Capital Expenditure Collapse</p> <p>Capital expenditure falls from €715 million in 2024 to approximately €300 million by 2026, converting €1.7 billion of EBITDA into over €687 million of free cash flow with no volume growth required.</p> <p>-----</p> <p>€687m+ FCF</p>	<p>02 Paso de los Toros Normalization</p> <p>The Paso de los Toros pulp mill carries a verified cash cost of \$280 per tonne against a mid-cycle BEK price assumption of \$650 per tonne, leaving a €900 million EBITDA gap in Fibres that closes on price normalisation alone, not operational improvement.</p> <p>-----</p> <p>€900m EBITDA gap</p>	<p>03 Robust Tangible Asset Floor</p> <p>The tangible asset floor of UPM Energy and Finnish forestry supports €8 billion to €9 billion of the €16.4 billion enterprise value, leaving the entire pulp portfolio and biochemicals option available at €3 billion to €5 billion in the current market price.</p> <p>-----</p> <p>€8-9B EV floor</p>
---	--	--

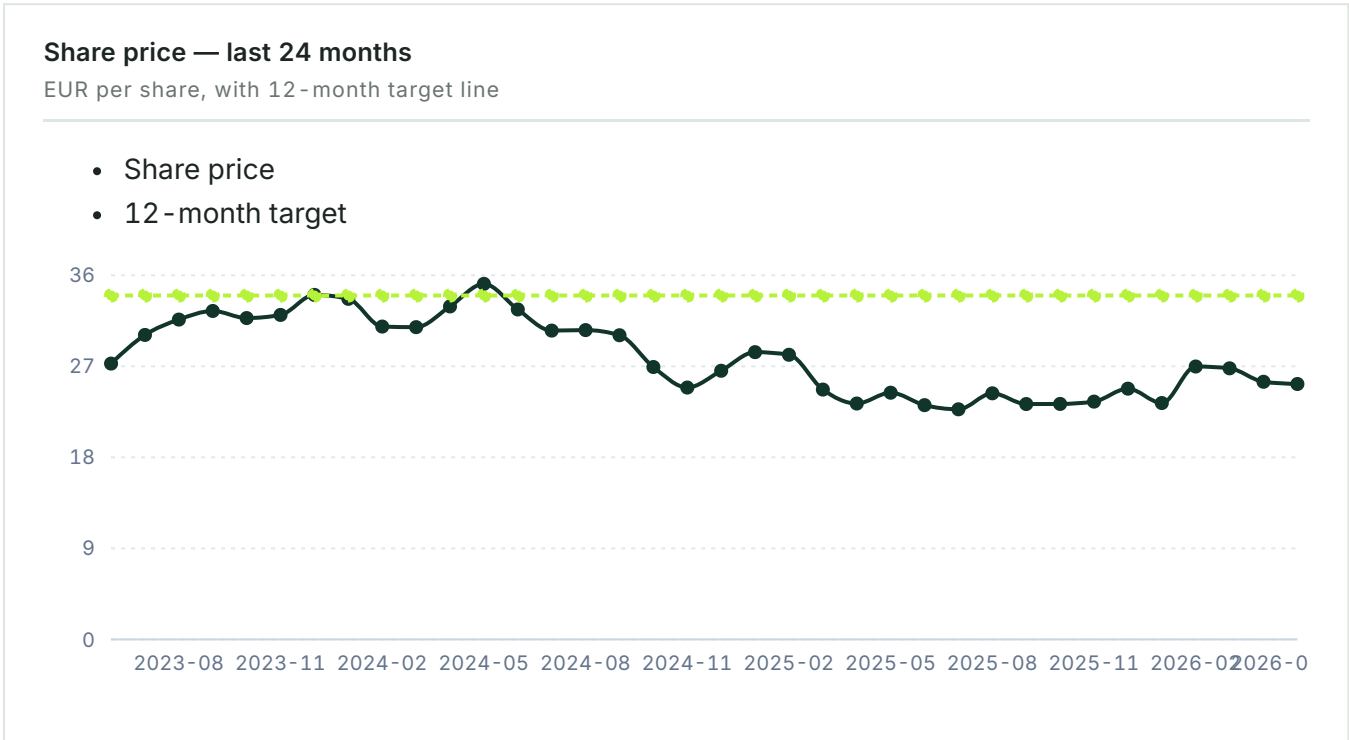
THESIS BREAKER Global pulp prices settling durably below \$500 per tonne, preventing the €3 billion Paso de los Toros asset from clearing its cost of capital.

SHARE PRICE DEVELOPMENT

Price trajectory and valuation anchors

03

24+ months of monthly closes with the 12-month target overlaid. Quick facts pull from market data.



<p>CURRENT PRICE</p> <p>25.31 EUR</p> <p>21 May 2026</p>	<p>TARGET PRICE</p> <p>34.00 EUR</p> <p>12-month</p>	<p>IMPLIED UPSIDE</p> <p>+34.3%</p> <p>vs. current</p>	<p>52-WEEK HIGH</p> <p>26.98 EUR</p> <p>past 12m</p>
<p>52-WEEK LOW</p> <p>22.75 EUR</p> <p>past 12m</p>	<p>1-YEAR CHANGE</p> <p>+3.5%</p> <p>price only</p>	<p>3-YEAR CHANGE</p> <p>-7.4%</p> <p>price only</p>	<p>REPORT DATE</p> <p>21 May 2026</p>

Market-cap allocation by value pool

04

Each pool's share of the group's market capitalisation, with revenue / EBIT / mcap economics.

Market cap by pool

EUR millions



- UPM Fibres (Pulp & Forestry)
6 500 EURm · 50 %
- Next Generation Renewables
1 250 EURm · 10 %
- UPM Energy
3 500 EURm · 27 %
- Advanced Materials (Raflatac & Specialty)
2 500 EURm · 19 %
- Communication Papers
1 000 EURm · 8 %

SEGMENT ECONOMICS

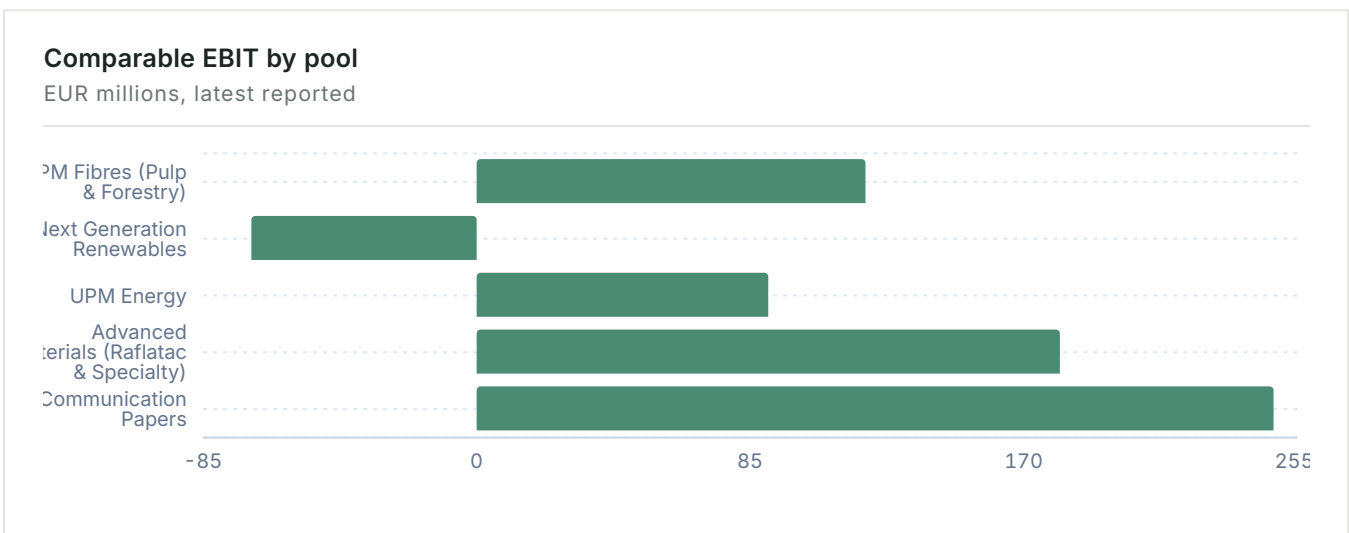
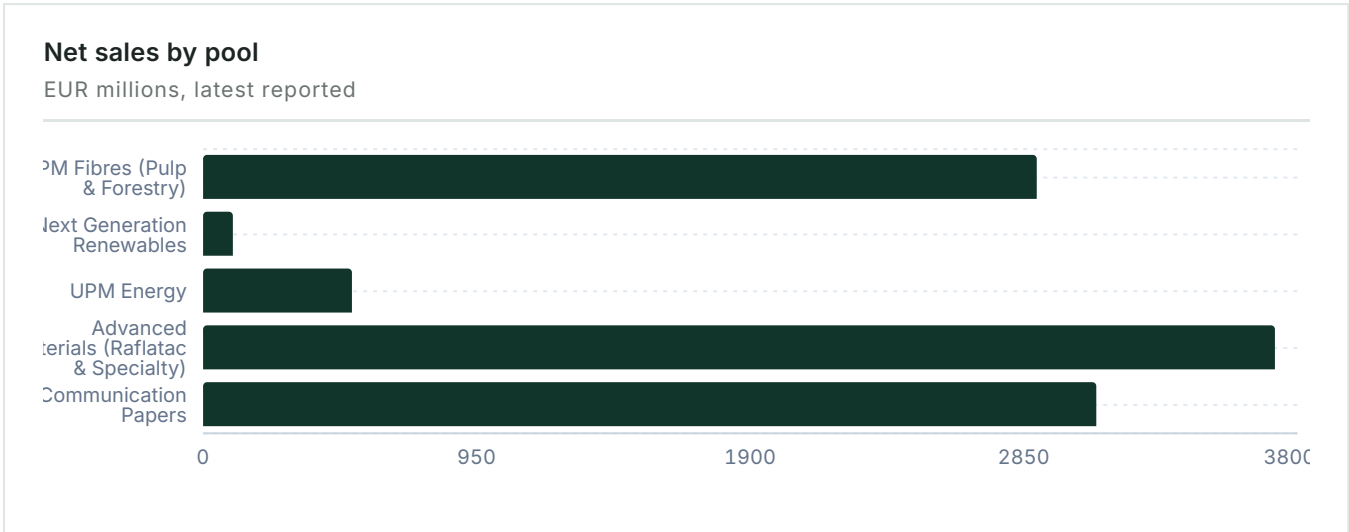
	REVENUE	F
UPM Fibres (Pulp & Forestry)	2,895	2
Next Generation Renewables	103	
UPM Energy	517	
Advanced Materials (Raflatac & Specialty)	3,722	3
Communication Papers	3,102	3

VALUE BREAKDOWN · PART 2

05

Net sales and EBIT by pool

Two horizontal bar charts showing where revenue and earnings actually come from.



INTERPRETATION

UPM's €16.4 billion enterprise value is heavily underpinned by its zero-carbon energy and forestry assets, providing a profound €8-9 billion tangible valuation floor. This implies the market assigns nearly zero premium to the massive recent capital deployments in Uruguay and Germany, treating UPM as a structurally impaired cyclical rather than a company on the verge of massive cash harvesting.

RECOMMENDATION

Why we land on the call we do

06

The supporting prose, the rating decision, and the three load-bearing reasons.

UPM trades at approximately €28 per share, and we maintain a BUY stance with a target price of €34, implying roughly 21% upside over the next 9 months.

The market is pricing UPM as though the Paso de los Toros investment failed and Leuna will consume capital indefinitely, an assessment that overstates permanent impairment risk. The tangible asset floor alone, UPM Energy plus Finnish forestry at €8 billion to €9 billion and Advanced Materials at €3 billion to €3.5 billion, accounts for roughly €11 billion to €12.5 billion of the €16.4 billion enterprise value, leaving the pulp portfolio and biochemicals option available at €3 billion to €5 billion.

Three gating conditions govern the re-rating: first, Paso de los Toros must sustain continuous operation at or near its 2.1 million tonne nameplate capacity with cash costs at or below \$280 per tonne; second, integrated commercial production at Leuna must begin in the second half of 2025 with binding customer deliveries disclosed; third, Chinese port pulp inventories must normalise toward historical averages, closing the €900 million Fibres EBITDA gap.

BUY

TARGET PRICE

34.00 EUR

CURRENT PRICE

25.31 EUR

IMPLIED UPSIDE

+34.3%

12-MONTH VIEW

A collapse in growth capex combined with normalized pulp margins will structurally expand free cash flow and unlock UPM's valuation.

MAIN DRIVER

Capital expenditure collapse and pulp margin recovery.

MAIN RISK

Structural oversupply in global pulp markets.



01 Capital Expenditure Collapse

Capital expenditure falls from €715 million in 2024 to approximately €300 million by 2026, converting €1.7 billion of EBITDA into over €687 million of free cash flow with no volume growth required.

€ 687m+ FCF

02 Paso de los Toros Normalization

The Paso de los Toros pulp mill carries a verified cash cost of \$280 per tonne against a mid-cycle BEK price assumption of \$650 per tonne, leaving a €900 million EBITDA gap in Fibres that closes on price normalisation alone, not operational improvement.

€ 900m EBITDA gap

03 Robust Tangible Asset Floor

The tangible asset floor of UPM Energy and Finnish forestry supports €8 billion to €9 billion of the €16.4 billion enterprise value, leaving the entire pulp portfolio and biochemicals option available at €3 billion to €5 billion in the current market price.

€ 8-9B EV floor

THESIS BREAKER

Global pulp prices settling durably below \$500 per tonne, preventing the €3 billion Paso de los Toros asset from clearing its cost of capital.

07

How the company creates economic value

The mental model behind every pool deep-dive that follows.

UPM-Kymmene Oyj (UPM) operates a business model with an unusual dual character. The company currently derives the majority of its revenue and operating profit from mature packaging materials and structurally declining graphic paper operations. However, the market assigns the vast majority of UPM's enterprise value to its long-duration infrastructure assets, specifically its zero-carbon Finnish energy generation base, its owned forestry land, and its highly cost-competitive South American pulp operations.

The market values UPM through a sum-of-the-parts framework that aggressively discounts the legacy European paper business while placing utility-like infrastructure multiples on the Finnish electricity generation and South American pulp assets. UPM Energy and the Finnish forestry assets provide a valuation floor, operating with high capital intensity but exceptional cash margins. Meanwhile, UPM Communication Papers generates up to 40% of group cash flow in a given quarter, yet is treated by the market as a terminal asset.

The most critical analytical debate centres on UPM Next Generation Renewables and UPM Fibres. UPM has recently completed a massive capital expenditure cycle, most notably the €3 billion-plus investment in the Paso de los Toros pulp mill in Uruguay and the €1.275 billion investment in the Leuna biochemicals refinery in Germany. Evaluating whether the capital deployed in these two value pools can generate the required mid-cycle return on capital is the defining requirement for underwriting the equity.

ANALYTICAL ANCHOR

The central tension in the equity story is the disconnect between the legacy cash engines and the future growth drivers, compounded by execution delays in the company's transition to novel biochemicals.

08

UPM Fibres (Pulp & Forestry)

Pool deep dive — commodity_or_spread_business.

UPM Fibres generated approximately €3 billion in sales in 2024. Despite the scale of the business, cyclical pricing pressures in the global pulp market suppressed comparable EBIT margins to mid-single digits during the trough, though operating performance rebounded as the new Uruguayan capacity ramped up. The division holds a disproportionate share of UPM's total capital employed, and the market assigns roughly 45% of total enterprise value to the combined pulp and forestry asset base.

The market values UPM Fibres on its position on the global pulp cost curve and the terminal value of its owned forestry assets. Pulp is a highly cyclical commodity, and valuations in the sector typically fluctuate based on the spread between the prevailing market price of hardwood and softwood pulp and the marginal cost of production. UPM commands a premium valuation relative to pure-play commodity peers because of the Paso de los Toros mill in Uruguay, which is structurally positioned in the lowest quartile of the global cash cost curve.

The global pulp market is driven by end-market demand for tissue, hygiene products, packaging, and specialty papers, with structural declines in graphic papers acting as a partial offset. Hardwood pulp, particularly bleached eucalyptus kraft (BEK) pulp, is the primary growth driver, benefiting from fast-growing plantations in South America. The fundamental mechanism for value creation in this market structure is absolute cost leadership.

The unit economics of the UPM Fibres business are driven by volume, market price (ASP), and cash cost per tonne. With the completion of Paso de los Toros, UPM's total pulp capacity approaches 5.8 million tonnes. If we assume a mid-cycle BEK price of \$650 per tonne and a blended cash cost of \$350 per tonne across the portfolio, the division generates a cash margin of roughly \$300 per tonne. At full capacity utilisation, this translates to approximately \$1.7 billion in mid-cycle EBITDA.

UPM FIBRES (PULP & FORESTRY) FACT SHEET

COMMODITY_OR_SPREAD_BUSINESS

CAPACITY

5.8m tonnes

ESTIMATED CASH COST POSITION

\$280/t (Uruguay 1st quartile)

2024 SEGMENT EBITDA

~€600m

MID-CYCLE EBITDA TARGET

€1.4B - €1.6B

TARGET ROCE

14.0%

08

Next Generation Renewables

Pool deep dive — emerging_option.

UPM Next Generation Renewables is currently generating negative operating profit, posting an EBIT loss of roughly €70 million in 2024. Revenue contribution is negligible. However, the market assigns up to 10% of UPM’s enterprise value to this segment based on the future cash flow profile of the €1.275 billion Leuna biorefinery and the existing Lappeenranta biofuels facility.

The market values the Next Generation Renewables division as a long-duration call option on the decarbonisation of the chemical and transportation sectors. While the legacy paper business is in secular decline, the biorefining business provides a credible terminal growth narrative. The valuation logic is based on the assumption that UPM can successfully process solid wood biomass into renewable glycols, functional fillers, and industrial sugars at a margin that mimics specialty chemicals rather than standard pulp.

The unit economics of the Leuna biorefinery depend on standard chemical processing math: capacity multiplied by average selling price, minus feedstock and variable processing costs, heavily burdened by fixed capital depreciation. Leuna is designed for 220,000 tonnes of annual capacity. If we estimate an average selling price of €2,000 per tonne, the facility implies a run-rate revenue of roughly €440 million.

To justify the revised €1.275 billion capital investment, the plant must generate a structural ROIC of at least 10% to 12%, implying required annual EBIT of €130 million to €150 million. This demands an EBIT margin in excess of 30%, a profile consistent with high-end specialty chemicals but highly demanding for a first-of-its-kind wood processing facility.

NEXT GENERATION RENEWABLES FACT SHEET

EMERGING_OPTION

CAPACITY

220,000 tonnes

TARGET INTEGRATED STARTUP

H2 2025

2024 SEGMENT EBIT

~-€70m

REQUIRED MID-CYCLE EBIT

€130m - €150m

TARGET EBIT MARGIN

30%+

08

UPM Energy

Pool deep dive — regulated_or_infrastructure_asset.

UPM Energy is a highly profitable, asset-heavy business generating CO2-free electricity in Finland through hydropower and nuclear assets (primarily its stake in the Olkiluoto nuclear power plant). In 2024, despite lower electricity prices compared to the 2022/2023 energy crisis, the segment produced excellent cash flow, targeting a long-term ROCE of 6% based on a heavily upward-revalued fair value asset base. The division accounts for roughly 5% of group sales but up to 15% of EBIT, depending on the quarter.

The market values UPM Energy as a premier infrastructure asset offering baseload, zero-carbon electricity in a volatile European energy market. It serves as the ultimate defensive anchor for the UPM equity story. The valuation logic is based on asset value and stable cash returns. Because UPM owns these assets outright or through long-term consortium structures, the marginal cost of generation is extremely low and insulated from global fossil fuel inflation.

The Nordic electricity market operates on a marginal pricing system where weather (hydro reservoir levels) and wind generation dictate short-term pricing, but baseload assets like nuclear power dictate long-term stability. The market structure is highly favourable to incumbent zero-carbon generators following the structural removal of Russian gas and electricity from the European grid. UPM is effectively short electricity in its energy-intensive paper milling operations, and the UPM Energy division acts as a physical hedge.

The economic moat is impenetrable. It is functionally impossible for a new entrant to replicate UPM's hydropower concessions or build a new nuclear facility in Finland within a decade, given the regulatory, capital, and political barriers. UPM's ownership stake in Olkiluoto 3 provides a massive step-up in low-marginal-cost generation capacity.

UPM ENERGY FACT SHEET

REGULATED_OR_INFRASTRUCTURE_ASSET

PRIMARY ASSET BASE

Finnish hydro + nuclear stake

GENERATION PROFILE

Zero-carbon baseload

LONG-TERM TARGET ROCE

6% (on fair-value base)

MARKET POSITION

Defensive anchor

08

Advanced Materials (Raflatac & Specialty)

Pool deep dive — current_profit_engine.

Comprising UPM Raflatac (adhesive labels) and UPM Specialty Papers, this combined grouping represents over a third of group sales and roughly 30% of EBIT. The businesses target ROCE levels of 14% to 20%, which they largely achieve outside of severe destocking cycles.

The market values Advanced Materials as the stable, compounding core of the company. Unlike the volatile pulp and energy divisions, or the declining communication papers segment, packaging and labels provide steady growth tied to GDP, e-commerce, and fast-moving consumer goods (FMCG). The valuation reflects a high-quality industrial multiple based on resilient demand and expanding margins.

The business model is driven by unit volume and gross margin over raw materials (primarily specialty pulp and chemicals). UPM Raflatac has expanded its scale and reach through targeted acquisitions (e.g., AMC in Germany, Grafityp in Belgium) to capture higher-margin graphics market share. The economic moat relies on operational excellence, supply chain reliability, and scale in purchasing.

While less glamorous than the biochemicals option, Advanced Materials provides the earnings stability necessary to anchor the company's dividend policy while the larger, more cyclical capital projects mature.

ADVANCED MATERIALS (RAFLATAC & SPECIALTY) FACT SHEET

CURRENT_PROFIT_ENGINE

MARKET DEMAND

Tied to GDP and FMCG

TARGET ROCE

14% - 20%

GROWTH DRIVER

High-margin graphics & targeted M&A

VALUATION PROFILE

9x - 10x Stable EBIT

08

Communication Papers

Pool deep dive — defensive_or_declining_cash_flow.

Communication Papers remains a massive segment by revenue, generating roughly 30% of UPM's top line, and was responsible for over 40% of the group's comparable EBIT during periods of peak paper pricing. However, the business operates in a state of managed decline, with UPM aggressively closing capacity (such as the recent closures at Nordland Papier, Ettringen, and Kaukas) to match falling structural demand.

The market assigns a very low multiple to this business, treating it as a melting ice cube. The valuation logic is strictly based on the discounted cash flow of a terminal asset. Investors value the division for its ability to fund the dividend and subsidize the capital expenditure required for Next Generation Renewables and Fibres.

The market for graphic papers is in secular decline due to digitalisation. Demand falls structurally by mid-single digits annually. The market structure is a classic end-game oligopoly. The remaining players must carefully manage capacity reductions. If capacity is removed faster than demand declines, pricing power remains intact, allowing for high margins on shrinking volumes.

The unit economics require absolute ruthlessness in fixed cost management. UPM's strategy is to operate the most efficient machines at maximum utilization and close the rest. The division targets a 14% Free Cash Flow to Capital Employed (FCF/CE) ratio, a metric it consistently beats (frequently posting over 20%).

**COMMUNICATION PAPERS
FACT SHEET**

DEFENSIVE_OR_DECLINING_CASH_FLOW

MARKET DYNAMIC

Secular volume decline

STRATEGIC IMPERATIVE

**Orderly capacity
management**

TARGET FCF/CE

14% (Consistently >20%)

VALUATION ASSIGNMENT

Discounted Terminal FCF

09

Putting the pools back together

How the parts add up — and where the multiple has to come from.

The mechanical driver of UPM's forward forecast is a massive expansion in free cash flow, facilitated by two intersecting trends: the stabilization of operating margins as the commodity cycle normalises, and a structural collapse in capital expenditure. Over the past five years, UPM has invested heavily to reshape its portfolio, depressing free cash flow. As capex drops toward a €300 million maintenance run-rate by 2026, the cash conversion of the business will structurally inflect.

The portion of the bridge supported by current businesses is highly robust. UPM Energy, Advanced Materials, and Communication Papers are established cash generators requiring minimal new capital. The volume growth from Paso de los Toros is also mechanically secure, given the asset is already commissioned and operating.

The weakest part of the financial bridge is the margin recovery and mix shift dependent on Next Generation Renewables and the cyclical recovery of global pulp prices. If Leuna requires further corrective capital or fails to achieve its 30%+ target EBIT margins, the consolidated margin expansion will stall. For the forecast to be credible, management must prove that the transition from a heavy investment phase to a harvesting phase does not expose underlying structural weakness in the new biochemicals portfolio.

BRIDGE MECHANICS

A structural collapse in growth capital expenditure intersects with recovering pulp margins to double free cash flow over the forecast period.

The current enterprise value of approximately €16.4 billion is heavily supported by the tangible asset base. Using a regulated asset base framework for UPM Energy and a standard transaction multiple for the Finnish forest land, current asset values support roughly half of the total enterprise value. This provides a profound margin of safety for the equity. The market is not pricing in perfection; it is currently pricing UPM as a structurally impaired cyclical business, likely due to the recent earnings trough and the headline impairments at Leuna.

However, the implied economics required to justify the remaining valuation—specifically the €3 billion to €4 billion allocated to the industrial pulp assets and the €1 billion allocated to renewables—demand a transition from potential to actual cash generation. The market appears to require Paso de los Toros to operate continuously at a \$280 per tonne cash cost, and for the global pulp market to absorb the new supply without structurally resetting mid-cycle pricing lower.

The most fragile assumption is the valuation assigned to the Next Generation Renewables. If Leuna fails to achieve commercial viability, writing off the asset would destroy over €1 billion in invested capital and erase the terminal growth narrative, forcing the market to re-rate UPM purely as a shrinking paper company attached to a highly efficient pulp mill.

The valuation is highly defensible based on the sum-of-the-parts asset floor, but multiple expansion will fail if the biochemicals division cannot prove its unit economics.

10

Scenario logic and the bottom-line judgment

How the report would look different if the call breaks the wrong way.

The scenarios differ fundamentally based on the execution of the growth options and the macro pricing of pulp. The largest valuation swing is dictated by the UPM Fibres division, simply due to the massive operational leverage inherent in producing 5.8 million tonnes of pulp. A \$100 per tonne move in global pulp prices translates almost directly to the bottom line, radically altering consolidated EBITDA.

The most important variable for downside protection is the discipline of the Communication Papers division. If the structural decline in graphic papers accelerates beyond UPM's ability to close mills, fixed cost absorption will collapse, draining the cash needed to service the €2.9 billion in net debt and fund the dividend. The downside thesis breaker is a concurrent collapse in Nordic electricity prices and global pulp prices, stripping away the defensive cash flow just as the balance sheet absorbs the final capital requirements for Leuna.

For the upside scenario to materialise, everything must go right in Next Generation Renewables. If UPM successfully creates a new, high-margin market for wood-based biochemicals, the company will transition in the eyes of the market from a cyclical forestry asset to a secular growth materials science platform, supporting aggressive multiple expansion.

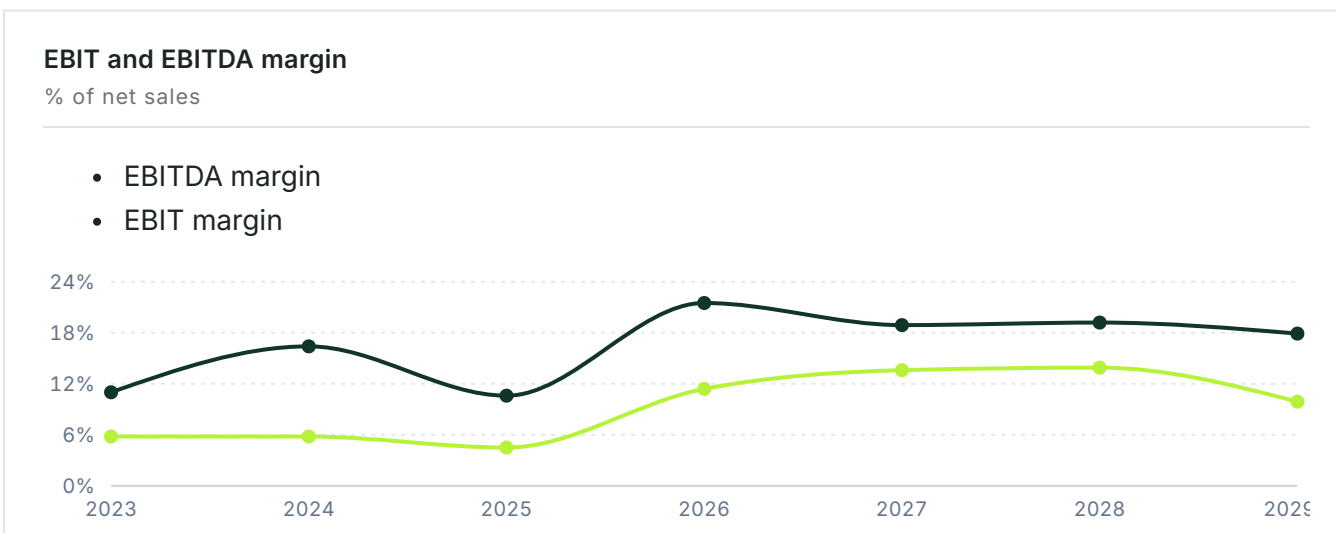
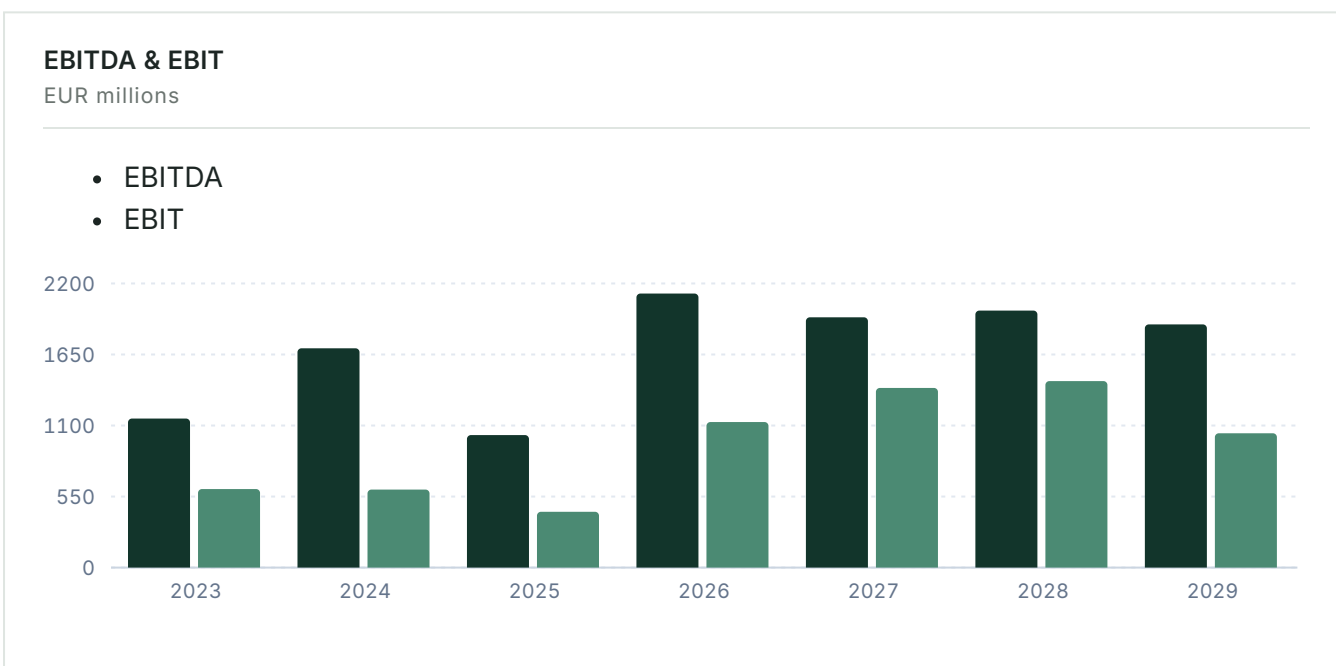
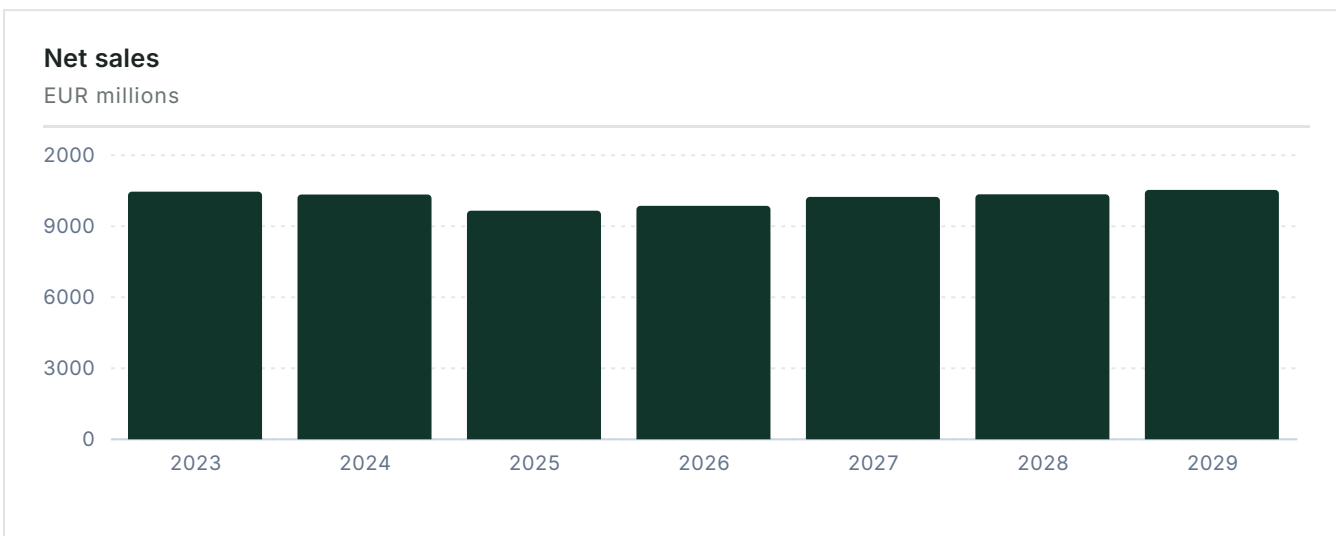
BOTTOM LINE

The central investment debate for UPM revolves around whether it is a highly cyclical legacy forestry company masquerading as a green materials innovator, or a structurally advantaged infrastructure player nearing the end of a transformative capex cycle. The valuation is ultimately supported by current tangible economics—zero-carbon power generation and low-cost pulp—rather than future optionality. The biochemicals division provides the narrative, but the physical spread businesses provide the cash.

14

Net sales, EBITDA / EBIT, EBIT margin

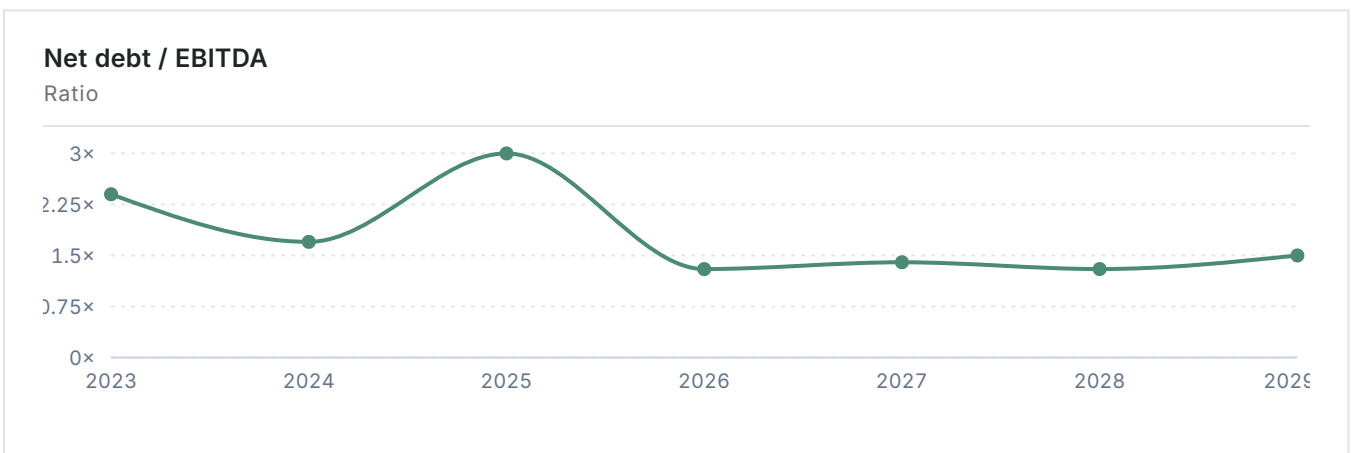
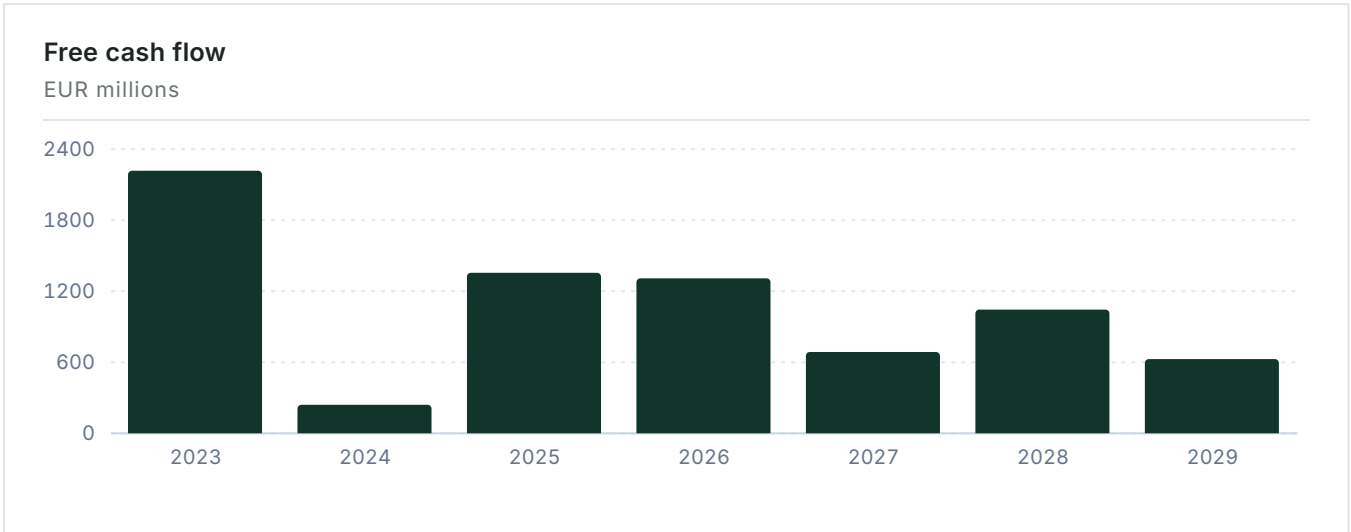
Group-level top-down view. Shaded bands show forecast periods.



15

Free cash flow, leverage, and key financials

Cash generation and balance-sheet capacity.



KEY FINANCIALS					
	2025	2026	2027	2028	2029
Net Sales	9,656	9,861	10,239	10,348	10,534
EBITDA	1,026	2,122	1,938	1,990	1,883
Comparable EBIT	432	1,127	1,391	1,444	1,040
Net Earnings	491	818	987	1,113	825
EPS (EUR)	0.9	1.6	1.9	2.1	1.6
DPS (EUR)	1.5	1.2	1.5	1.7	1.3

MULTIPLES & SENSITIVITY

16

Forward multiples and EBITDA × multiple grid

How the implied value changes when EBITDA and the trading multiple move.

FORWARD MULTIPLES										
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
P/E	—	—	15.3×	28.5×	13.6×	12.0×	46.0×	30.6×	26.7×	16.4×
EV/EBITDA	—	—	9.0×	13.7×	9.6×	9.1×	18.6×	10.4×	16.2×	7.8×
EV/EBIT	—	—	12.2×	22.1×	12.5×	11.2×	35.3×	29.1×	38.5×	14.6×
P/FCF	—	-1.5×	-1.9×	23.3×	-15.5×	-9.5×	8.2×	58.7×	9.7×	10.2×
P/BV	—	—	1.6×	1.7×	1.6×	1.5×	1.6×	1.3×	1.3×	1.3×
Dividend Yield	—	—	4.2%	4.3%	3.9%	3.7%	4.4%	5.6%	5.9%	4.9%
Net Debt / EBITDA	—	—	—	—	0.6×	1.2×	2.4×	1.7×	3.0×	1.3×

EBITDA × EV/EBITDA sensitivity					
EBITDA EV/EBITDA →	6.0×	7.0×	8.0×	9.0×	10.0×
-20% EUR 1,698m	EUR 10,188m EUR 13.40 / sh	EUR 11,886m EUR 16.70 / sh	EUR 13,584m EUR 19.90 / sh	EUR 15,282m EUR 23.10 / sh	EUR 16,980m EUR 26.30 / sh
-10% EUR 1,910m	EUR 11,460m EUR 15.90 / sh	EUR 13,370m EUR 19.50 / sh	EUR 15,280m EUR 23.10 / sh	EUR 17,190m EUR 26.70 / sh	EUR 19,100m EUR 30.30 / sh
Base EUR 2,122m	EUR 12,732m EUR 18.30 / sh	EUR 14,854m EUR 22.30 / sh	EUR 16,976m EUR 26.30 / sh	EUR 19,098m EUR 30.30 / sh	EUR 21,220m EUR 34.30 / sh
+10% EUR 2,334m	EUR 14,004m EUR 20.70 / sh	EUR 16,338m EUR 25.10 / sh	EUR 18,672m EUR 29.50 / sh	EUR 21,006m EUR 33.90 / sh	EUR 23,340m EUR 38.30 / sh
+20% EUR 2,547m	EUR 15,282m EUR 23.10 / sh	EUR 17,829m EUR 27.90 / sh	EUR 20,376m EUR 32.70 / sh	EUR 22,923m EUR 37.50 / sh	EUR 25,470m EUR 42.40 / sh

SCENARIO VALUATION

17

Bear / Base / Bull bridge

Revenue, EBITDA, multiple, EV, equity, value-per-share and upside in each scenario.

SCENARIO BRIDGE								
	REVENUE	EBITDA	MARGIN	MULTIPLE	EV	EQUITY	VALUE / SHARE	UPSIDE
Bear	9,500	1,400	14.7%	5.5×	7,700	4,621	EUR 8.74	-65.5%
Base	10,200	1,900	18.6%	8.0×	15,200	12,121	EUR 22.93	-9.4%
Bull	10,800	2,200	20.3%	9.5×	20,900	17,821	EUR 33.72	+33.2%

KEY CONDITIONS

The scenarios differ fundamentally based on the execution of the growth options at Leuna and the macro pricing of pulp. The largest valuation swing is dictated by the UPM Fibres division given the massive operational leverage inherent in producing 5.8 million tonnes of pulp. In the bull case, on-time commercialization of Leuna and a \$650/t pulp mid-cycle drives multiple expansion; in the bear case, technical failure and \$500/t structural oversupply destroys equity value.

THESIS BREAKER

A concurrent collapse in Nordic electricity prices and global pulp prices into structural oversupply, stripping away defensive cash flow while Leuna absorbs further corrective capital.

CATALYSTS

18

Monitoring checklist

Near, medium and long-term events that could shift the call.

CATALYST REGISTER				
	TIMING	POOL	INDICATOR	VALUATION IMPACT
Leuna Commercialization	MEDIUM-TERM	Next Generation Renewables	First commercial customer deliveries; margin disclosure	Validates €1.0B+ option value
Paso de los Toros Optimization	NEAR-TERM	UPM Fibres	Uruguayan pulp cash cost per tonne <\$280	Secures core EBITDA bridge
Global Pulp Inventory Cycle	NEAR-TERM	UPM Fibres	Chinese port inventories vs historical averages	Re-rates mid-cycle pulp margins
Paper Capacity Closures	MEDIUM-TERM	Communication Papers	European graphic paper supply/demand balance	Sustains FCF generation

READ - THROUGH

The catalyst that matters most is the integrated commercial production at the Leuna biorefinery. Following the €373 million impairment, market trust in this project is highly fragile. Successful commercial deliveries in H2 2025 would immediately remove the largest overhang on the stock. This catalyst is easy to observe, as management will be forced to report on product purity, customer acceptance, and initial margins. The catalyst most likely to be misunderstood is the closure of paper mills. Generalist investors frequently view capacity closures as a sign of business distress. In reality, aggressive capacity reduction in Communication Papers is highly accretive to shareholder value, as it preserves pricing power and cash flow margins in a structurally declining market. The monitoring checklist directly links back to valuation: confirming Leuna validates the option value, while confirming pulp costs secures the core EBITDA bridge.

RISKS

Risk register

19

Each risk's pool, mechanism, early - warning trigger, impact band and structural type.

RISK REGISTER					
	POOL	MECHANISM	EARLY WARNING	IMPACT	TYPE
Execution failure in Biochemicals	Next Generation Renewables	Technical failure to scale the sugars-to-chemicals process limits Leuna to cash consumption.	Further sequential startup delays	HIGH	MANAGEABLE
Permanent pulp oversupply	UPM Fibres	Prolonged period where prices hover near marginal cash costs prevents clearing cost of capital.	Continuous weakness in Asian pulp pricing	HIGH	THESIS-BREAKER IF CO
Accelerated paper decline	Communication Papers	Structural decline accelerates beyond management's capacity to close facilities, collapsing cash margins.	Falling FCF/CE ratio below 14%	MEDIUM	MANAGEABLE
Regulatory intervention in energy	UPM Energy	Windfall taxes or interventions penalize low-cost baseload operators in the Nordics.	Adverse Finnish or EU energy tax proposals	MEDIUM	STRUCTURAL

READ - THROUGH

The most thesis-breaking risk is a permanent structural oversupply in the global pulp market. While UPM is protected on the downside by its first-quartile cost position in Uruguay, a prolonged period where prices hover near marginal cash costs would prevent UPM from earning its cost of capital on the €3 billion Paso de los Toros investment, stagnating equity returns for years. The execution risk at Leuna is already partly priced following the recent impairments and timeline delays, but total technical failure remains a lingering, albeit lower-probability, tail risk. What is largely underappreciated is the interaction of these risks. If Leuna fails to generate cash just as the pulp market enters a prolonged trough, the consolidated group will rely entirely on UPM Energy and Advanced Materials to cover the dividend and service debt, likely forcing a painful capital allocation reset.

20

APPENDIX

Income statement

INCOME STATEMENT — EUR MILLIONS						
	2023	2024	2025	2026	2027	2028
Net Sales	10,460	10,339	9,656	9,861	10,239	10,348
EBITDA	1,154	1,698	1,026	2,122	1,938	1,990
EBITDA margin	11.0%	16.4%	10.6%	21.5%	18.9%	19.2%
Depreciation	-546	-1,094	-594	-995	-547	-547
Operating Profit (EBIT)	608	604	432	1,127	1,391	1,444
EBIT margin	5.8%	5.8%	4.5%	11.4%	13.6%	13.9%
Net financial items	-143	-104	258	-120	-176	-73
Pre-tax Profit	465	500	690	1,007	1,215	1,371
Net Earnings	395	463	491	818	987	1,113
PER SHARE						
EPS	0.7	0.9	0.9	1.6	1.9	2.1
DPS	1.5	1.5	1.5	1.2	1.5	1.7
Payout ratio	202.5%	172.8%	161.5%	80.0%	80.0%	80.0%

21

APPENDIX

Balance sheet

BALANCE SHEET — EUR MILLIONS						
	2023	2024	2025	2026	2027	2028
ASSETS						
Tangible assets	9,166	7,933	9,842	9,181	9,533	9,635
Intangibles	715	580	554	566	587	594
Goodwill	283	174	264	264	264	264
Non-current assets	13,914	13,535	12,925	12,276	12,650	12,757
Inventories	1,949	2,070	1,886	1,943	2,017	2,039
Receivables	1,873	2,073	1,593	1,631	1,690	1,708
Cash & equivalents	632	892	715	772	802	811
Current assets	4,454	5,035	4,194	4,346	4,510	4,557
Total Assets	18,473	19,096	17,532	17,035	17,572	17,727
EQUITY & LIABILITIES						
Equity	11,531	11,540	10,334	10,359	10,692	11,016
Long-term debt	2,444	2,945	3,638	1,717	1,787	1,694
Short-term debt	200	37	156	1,717	1,787	1,694
Long-term liabilities	3,795	3,656	4,268	2,347	2,417	2,324
Current liabilities	2,441	2,395	2,237	3,637	3,771	3,696
Total liabilities & equity	18,473	19,096	17,531	17,035	17,572	17,727
CAPITAL STRUCTURE & RATIOS						
Net debt	2,718	2,922	3,079	2,662	2,773	2,577
Capital invested	13,543	13,630	13,413	13,021	13,464	13,592
Equity ratio	62.4%	60.4%	58.9%	60.8%	60.8%	62.1%
Gearing	23.6%	25.3%	29.8%	25.7%	25.9%	23.4%
Net debt / FRITDA	2.4x	1.7x	3.0x	1.3x	1.4x	1.3x

22

APPENDIX

Cash flow

CASH FLOW — EUR MILLIONS						
	2023	2024	2025	2026	2027	2028
OPERATIONS						
CF from operations	1,547	1,353	1,473	1,557	1,464	1,640
Operating cash flow	1,516	1,596	1,420	1,655	1,607	1,699
Change in working capital	-605	204	-387	256	70	20
INVESTING & FREE CASH						
Gross capex	-30	715	-16	346	920	654
Capex (ex. M&A)	30	-715	16	-346	-920	-654
Free Operating Cash Flow	2,217	241	1,355	1,309	687	1,045
Free cash flow to firm	2,218	241	1,356	1,309	687	1,045
FINANCING						
CF from financing	-2,755	-630	-1,798	-1,152	-514	-977
Dividends paid	-693	-800	-800	-793	-654	-790
Net change in cash	-1,178	8	-309	58	30	9

23

APPENDIX

Quarterly snapshot

LAST FOUR QUARTERS — EUR MILLIONS				
	Q1/27	Q2/27	Q3/27	Q4/27
Net Sales	2,560	2,560	2,560	2,560
EBITDA	573	387	418	269
EBITDA margin	22.4%	15.1%	16.3%	10.5%
Comparable EBIT	436	251	281	132
EBIT margin	17.0%	9.8%	11.0%	5.2%
Net Earnings	392	207	237	71
EPS	0.7	0.4	0.5	0.1

24

SOURCES & DISCLAIMER

Sources, assumptions, and standard disclaimer

SOURCES REGISTER			
	VALUE	CATEGORY	USED IN
Current price (€25.31)	25.31	MARKET DATA	Cover Page & Summary
Forecast EBITDA (€2,122m for 2026)	2122	ANALYST-GENERATED ESTIMATE	Financial Bridge & Multiples
Consensus EBIT 2027 (€1,391m)	1391	CONSENSUS ESTIMATES	Competitor Benchmarking
UPM Fibres Segment EBIT Share (20%)	20%	COMPANY VALUE MAP	Executive Economic Map
2024 Actual EBIT Margin (5.8%)	5.8%	FINANCIAL SNAPSHOT	Appendix Financials

DISCLAIMER

This report is for institutional use only. The information provided herein is based on sources believed to be reliable, but its accuracy and completeness cannot be guaranteed.

© 2026 UPM research. For institutional use only.